

January 26, 2013

Management Meet Note

Butterfly Gandhimathi Appliances (GANAP)

₹ 299

Poised to grow led by government orders, capex

We met the management of Butterfly Gandhimathi Appliances Ltd (BGAL) to understand the company's business model and get a sense about the company's future plans. BGAL was incorporated in 1986 with the objective of manufacturing and marketing kitchen appliances. The company was the first in India to introduce stainless steel pressure cookers & vacuum flasks and acquire the ISO 9002 certification, in the LPG and mixie divisions. The company derives revenues through retail sales (75% of core sales) and institutional sales (tie-up with gas companies). After establishing a strong presence in the southern market, the company is now spreading its wings to the rest of India. In FY12, the company received an order from the Tamil Nadu government to supply table top grinders and mixer grinders to all registered households (1.7 crore households). Post the completion of government orders, the company is aiming to continue to grow on the back of new product launches and also entry into new markets.

Government orders, capex plans (₹ 40 crore) to aid growth

Of the total government order of 1.7 crore households, ~60 lakh have been catered to in FY12 & FY13E. The balance will be executed over the next two to three years, thereby boosting revenues and profit. Apart from this, BGAL has lined up a capex of ₹ 40 crore to boost capacities. Both these initiatives will aid revenue & profitability growth.

Newer avenues for growth

Post the completion of government orders, the company is striving to achieve growth through (a) expansion into newer markets; (b) increasing exports; (c) enhanced capacities and (d) new product launches.

Financials to improve

The company's debt: equity ratio has come down from 4.4x in FY08 to 1.6x in FY12. BGAL further plans to bring this down through part utilisation of funds raised through a P/E investor. Also, the operating margin has been under pressure as the company is incurring promotional expenditure to spread its operations pan-India. Once the operations are stabilised, operating margins shall also return to original levels.

Return ratios to improve post debt reduction

The company has scope to grow as the unorganised market in kitchen appliances is high and the same can be tapped. BGAL is well poised to grow on the back of government orders and the ongoing capex. Once the company is able to retire debt and boost operational performance the return ratios are likely to improve further.

Exhibit 1: Financial Performance

(₹ crore)	CY09 (18 mths)	FY10 (18 mths)	FY11 (9 mths)	FY12 (12 mths)
Net Sales	144.7	253.5	203.2	590.2
EBITDA Margin (%)	9.7	10.7	9.9	9.7
Depreciation	1.7	1.3	1.0	1.7
Interest	3.1	6.7	6.7	17.6
Other Income	4.4	1.8	3.9	6.4
Reported PAT	9.5	15.6	15.2	30.3
EPS (₹)	9.9	16.2	15.7	19.6

Source: Company, ICICIdirect.com Research

Rating matrix

Rating	: Unrated
Target	: NA
Target Period	: NA
Potential Upside	: NA

Key Financials

(₹ Crore)	CY09	FY10	FY11	FY12
Net Sales	144.7	253.5	203.2	590.2
EBITDA	14.0	27.1	20.2	57.1
Net Profit	9.5	15.6	15.2	30.3

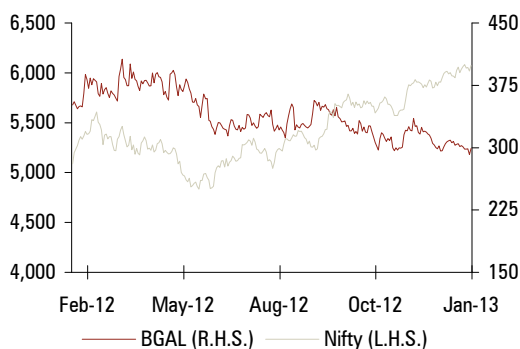
Valuation summary

	CY09	FY10	FY11	FY12
PE (x)	30.2	18.4	19.0	15.3
EV to EBITDA(x)	44.1	22.8	30.6	10.8
Price to book (x)	24.6	10.5	7.0	6.1
RoNW (%)	81.6	57.3	36.7	40.0
RoCE (%)	33.4	27.2	16.4	30.5

Stock data

Market Capitalisation	₹ 534 crore
Debt (FY12)	₹ 106 crore
Cash (FY12)	₹ 22 crore
EV	₹ 618 crore
52 week H/L (₹)	420 / 290
Equity capital	₹ 15.5 crore
Face value	10
DII Holding (%)	2.1
FII Holding (%)	-

Price movement

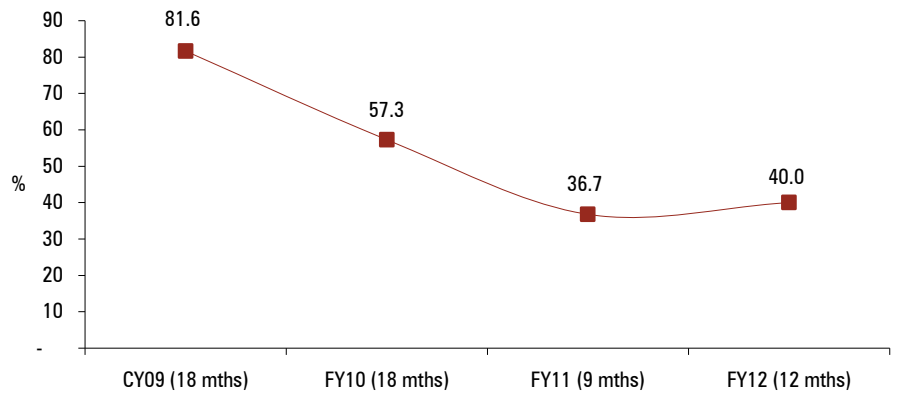


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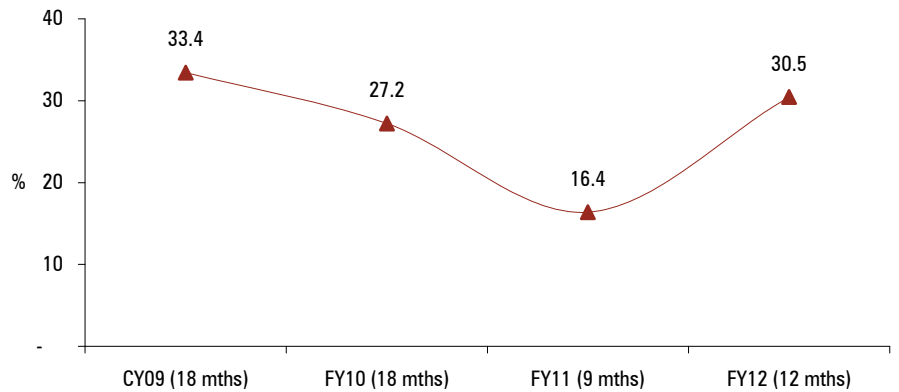
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Exhibit 2: Return on equity trend



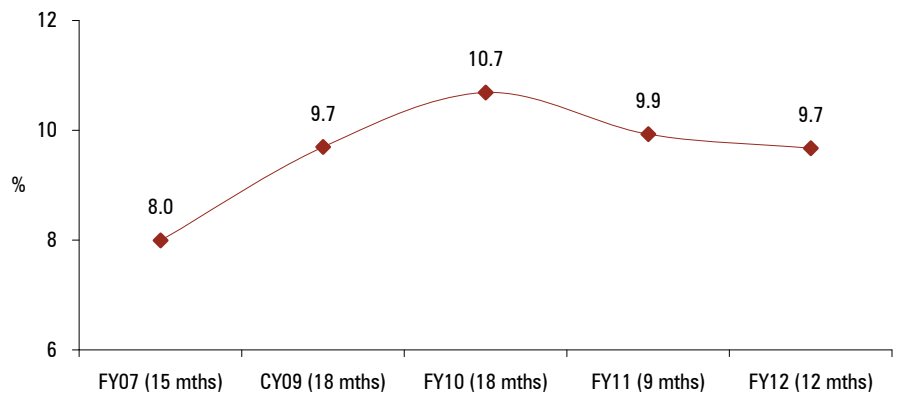
Source: Company, ICICIdirect.com Research

Exhibit 3: Trend in return on capital employed



Source: Company, ICICIdirect.com Research

Exhibit 4: EBITDA margin trend



Source: Company, ICICIdirect.com Research

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Strong Buy: > 15%/20% for large caps/midcaps, respectively, with high conviction;

Buy: > 10%/ 15% for large caps / midcaps, respectively;

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